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PROPERTY vs. $ALES TAX

How would the Massachusetts economy be affected by the substitution of a sales tax for part of the present property tax?

ONE reason for the current interest in the revision of the state and local tax system in Massachusetts is its close link with industrial growth. Massachusetts incomes and employment are directly influenced by the nature of its tax system. Excessively high property tax costs for business can discourage the movement of new industry into Massachusetts or encourage its migration away from the state.

Experience shows that after industrial decline has set in, a fall in assessed valuations may lead to an increase in the tax rate, worsening the city's competitive position still further.[1] The greatest percentage declines in assessed valuations have occurred in the largest urban industrial centers, such as New Bedford, Fall River, Holyoke, Lawrence, and Lowell. Even manufacturing cities which are not suffering from heavy loss of industry are experiencing a similar valuation fate. The most favorably placed communities in terms of tax capacity and revenue yield are the suburban residential and resort areas.[2]

Illustrating the decline in local property valuations are figures cited by Professor Lambie (Footnote 1) comparing the three-year period 1929-31 with 1937-39. Between these two periods Worcester's decline in local property valuations was 21.5 per cent, while New Bedford's valuation loss was 39.6 per cent. Tax rates in the two cities, rose 29.2 per cent and 43.3 per cent, respectively.

An increasing burden of property taxes means further cost increases and correspondingly lower profit margins or outright losses for business. Smaller profits induce concerns to leave the locality, generating new valuation declines, new tax rate increases, and so on.

To help correct this situation many tax authorities recommend that the state provide more financial aid to cities and towns. Its purpose would be to prevent further property tax increases from occurring as a result of a shrinking valuation base. Inequality among towns in tax capacity has put particular stress on the state's industrial communities. To diminish these inequalities and to offer more incentive to industry a state sales tax has been proposed. The sales tax would produce revenue which could be redistributed to the cities and towns and used to reduce local property taxes.

We have made the following assumptions in this article: (1) The entire proceeds of a two per cent sales tax are turned back to the cities and towns. (2) The method of distribution is equitable. (3) No further state or local expenditures are undertaken that would not have been made in the absence of a new sales tax. (4) Receipts from the sales tax are neither wasted nor turned into graft. (5) All of the proceeds of the sales tax are used to take a part of the pressure from real estate or other local sources of revenue. *The benefits to industry from imposing a sales tax will be dissipated if these assumptions are not adhered to in actual practice.*

The Sales Tax

Incidence of the sales tax. Let us suppose that a two per cent retail sales tax is levied in Massachusetts, exempting food, fuel, and certain other necessities. This is equivalent, from the Massachusetts consumer's point of view, to an increase in his cost of living. He may respond by cutting his consumption, his savings, or both.

Tax authorities are agreed that generally the consumer pays the over-all retail sales tax. It is not likely to be shifted back to business in the form either of reduced profits or higher wages. Retailers and producers must either pass on the tax or must absorb substantial losses themselves when the tax is a large one. Tax administrators and merchants generally advocate mandatory passing on of the tax to the consumer. The Ohio plan,

[1] See Morris B. Lambie, *Experiments in Methods of Municipal Analysis*, Bureau for Research in Municipal Government, Harvard Graduate School of Public Administration, Cambridge, December 1941. This book is invaluable to the analyst of state and local finance in Massachusetts.

[2] This same pattern is shown in *Recreation Property in New Hampshire* — 1945, New Hampshire Planning and Development Commission, Concord, 1948.

described in the box on this page, is an example of a type of sales tax which cannot legally be paid by anyone but the consumer.

Originally the consumer pays the same percentage rate of tax on all items. Later, transitional adjustments in prices and supplies of different commodities may take place. The percentage rate of price increases may vary between individual goods when adjustments have taken place. The consumer may ultimately pay slightly more than the original amount of tax on some items, less on others.

Initially retailers may pass on to the consumer the full amount of the tax; somewhat later they may be forced to absorb a small part of it.

How do changes in supply resulting from imposition of the sales tax work out in actual practice? They will depend upon how responsive consumers are to small changes in the prices for each type of commodity. Groups of basic necessities satisfying essential wants (non-luxury food items, clothing, and shelter) are generally purchased by individuals in fairly constant quantities within the ordinary range of price. Reduced consumption is more likely to be felt in luxury and semi-luxury items.

The effect of the sales tax on supply is likely to be negligible in the case of the Massachusetts economy. Much of what its people consume is imported, and for imported goods Massachusetts comprises only part of the suppliers' market. Similarly, much of what Massachusetts residents produce is purchased outside the state. A two per cent tax has a small effect on supply to begin with, and two per cent of the very small proportion of goods produced in Massachusetts which is consumed there is probably insignificant.

The cost to the individual wage earner. The lower-income groups ordinarily spend a larger part of their incomes and save a smaller part than do the upper-income groups. The burden of the sales tax is roughly proportional to how much consumers spend from their incomes. The lower-income groups have to pay a proportional tax upon a larger part of their incomes than the higher groups do. The incidence of the sales tax rests heaviest on the lower-income classes and it is considered to be a "regressive" tax.

The two per cent retail sales tax, proposed by Governor Bradford last year for fiscal year 1948, was to exempt food, rent, and fuel. These constitute a major part of the expenditures of persons having low incomes but a smaller fraction of the expenditures of those having high incomes. Exempting these goods tends to change the entire character of the general sales tax. Pressure on the lower-income groups is relieved and the tax becomes, in effect, a much less regressive form of revenue-producer.

The social effects of instituting a two per cent retail sales tax, with these exemptions, may be compared with those of broadening the personal income tax base.

First, let us examine the sales tax. How much sales tax would the "typical" city worker in Boston and his family pay? The Bureau of Labor Statistics has computed family budgets at June 1947 prices for Boston. This budget represents

A POPULAR SALES TAX

PROBABLY the most popular form of sales tax is that used in Ohio. Its principal features are:

(1) *Tax collection means the use of prepaid tax stamps.*

Merchants must give the consumer, when he pays the sales tax, an official receipt, or tax coupon. This receipt shows that the tax has been paid in full and has been received in full by the state.

Tax stamps are issued by the state in various denominations and are bought in advance by the merchants. The merchant can't collect from the customer until he makes the sale.

The merchant collects the tax in pennies from the customer whenever he makes a taxable sale. He must cancel the proper tax receipt in the presence of the customer by tearing it in two.

The seller keeps the stub and gives his customer the other half. This gives the state a visible check on its collection system. It assures the customer that the merchant has already paid into the state treasury the penny for which the receipt is given.

(2) *The Ohio system forces the retailer to pass the whole tax on to the consumer.*

(a) This is not true of most sales tax states. In most states, the merchants have adopted the so-called "bracket system". But enforcement is difficult because the *bracket system* usually works voluntarily without legal provision.

Sales of the smaller amounts under, say, 17 cents (Michigan) are tax-free. Above this point, brackets are set so that most merchants can recover from the consumer roughly the per cent of tax they are required to pay the state.

(b) In Ohio, the bracket system is written definitely into the law. Legitimate stores of Ohio feel that Ohio's legal "bracketing" gives them distinct protection from dishonest merchants who attempt to evade responsibility.

Another advantage of the tax is this: The gross amount Ohio receives out of the Ohio sales tax plan is far larger than under any other plan. The reason is that every merchant must collect a flat tax on every non-exempt sale, and every penny which comes in goes directly into the state treasury.

(3) *The merchant is compensated for expenses of administration.*

The licensed merchant gets a discount of three per cent on all purchases of prepaid tax receipts in quantities over $24.00. This is the retail vendor's sole chance to recover expenses of collection.

(4) *Enforcement enlists the aid of volunteer workers.*

In early 1939 the present plan was offered to simplify enforcement: Put a cash value on the tax stamp receipts. Now the consumer's half of the prepaid tax receipt can be redeemed in cash for three per cent of face value.

Emphasis is on redemption payments to health, welfare, charitable, religious, educational organizations, and so on. Evidence must be submitted that the group seeking redemption has assisted the state in collection of the tax.

These volunteer groups have in fact stopped up many leaks in sales tax income. Their volunteer aid helps to ferret out unprincipled merchants who collect the tax and pocket it simply through failing to deliver prepaid tax receipts to the buyers.

the estimated dollar cost required to maintain a family of four at a level of "adequate living".

The budget of the Boston worker, at June 1947 prices, will come to an estimated $3,310. This budget includes all the dollar outlays he must make, including taxes and insurance. Expenditures in his budget subject to the two per cent retail sales tax will add up to $1,080. (We have assumed exemptions from the tax of food — other than meals served in restaurants — rent, heat and utilities, medical supplies, and gifts and contributions.) That means the BLS wage earner would have paid yearly a tax of $21.60 if the proposed two per cent sales tax were in effect.

Exempting food and fuel makes a big difference in the amount of the tax paid. Food purchases alone take $941 yearly from the worker's pay envelope. If he were required to pay the tax on food as well as on other commodities, our typical wage earner would be paying a $40.42 tax on purchases from retail stores each year.

Now let us examine the amount of personal income tax paid by this same BLS family living in Boston. The current rate of "normal" tax paid by a married man is one and a half per cent on all salary earned above $2,500, with a $250 additional exemption allowed for each dependent child. Another 13 per cent of the "normal" tax must be computed and paid. That determines the total tax liability. Thus, under the Massachusetts income tax law the BLS wage earner's tax bill will come to $5.25, or probably somewhat less, depending on the amount of extra deductions he can claim.

He would pay, on the average, $21.60 yearly if a new two per cent retail sales tax were passed. This extra annual tax bill is the same in dollars as though his exemption (as a married man) under the income tax were reduced to $1,229. Or, with current exemptions unchanged, he would be paying the same under the sales tax as if income tax rates were raised to 8.7 per cent.[3]

Over-reliance on the progressive income tax has the disadvantage of encouraging people in the higher-income groups to change their place of residence. This may have a depressing effect on assessed valuations in the residential areas parallel to that which occurred in the industrial cities. Like the migration of industry, declining property valuations and rising local tax rates may result from any exodus of the well-to-do. The goose that lays golden eggs can always move her nest.

Effects on consumers' buying. Imposing a two per cent retail sales tax (if there were no exemptions) woult *not* be the same as a two per cent rise in the cost of living. The rise in the cost of living would be less than one per cent when food, fuel, and services are exempted. Is this going to cut into the buying of Massachusetts' citizens significantly? In other words, will consumers purchase the same quantity of goods after as before the tax is imposed, or will they tend to maintain their savings and reduce instead the value of their consumption? With an allowance for personal attitudes, this will depend largely on the income class to which each individual consumer belongs.

Take the case of the groups whose incomes are so small that nothing can be saved. Their consumption, which is the only item in their budgets, will be slightly reduced with a two per cent retail sales tax in effect.

Wage and salary earners in the low to middle brackets save a small part of their incomes, but these savings are frequently of the contractual type, such as life insurance and payments on homes. Like the lowest income groups, they may favor cutting down their consumption in order to preserve their level of savings intact.

It will be the upper-income groups who will purchase the same quantity of goods after as before the tax is introduced, at the expense of their savings. Thus, imposing a two per cent sales tax will tend to cut down on spending somewhat (in real terms a fraction of one per cent) in Massachusetts.

But consumers' spending will not be reduced by anything near the proportional rate of tax. This is both because the proposed law provided liberal exemptions and because consumers in the upper-income groups may cut into their savings, maintaining their consumption intact.

In Providence there seems to be widespread agreement that the Rhode Island sales tax has had no injurious effects on purchasing or buying power. That is, the effects of the tax may be so small on consumers' buying that they are swallowed up in general economic trends. Buyers' adjustment of this type to the tax is more likely the longer the tax has been in effect. Consumers get used to buying certain quantities of goods and they accustom themselves to the tax plus original price over a period of time.

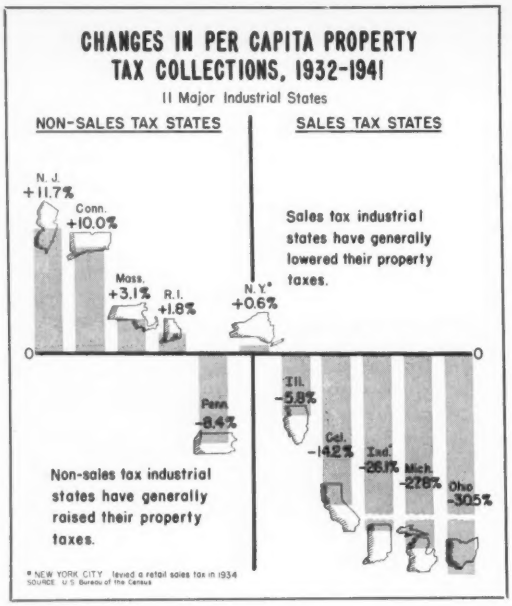
Effects on state's balance of payments. Corrections in Massachusetts' trade position may tend to offset unfavorable home consumption effects of the sales tax. Reduction in our "real" incomes means that we shall probably purchase less from the "outside".

Meanwhile, outsiders may purchase more of the goods produced in Massachusetts; more goods produced in the state will be available for sale to others. Massachusetts' exports may be increased. In addition, price reductions (or moderation of price increases) on Massachusetts-produced goods may be made possible if the state lightens the burden of producers' property tax costs. The competitive position of Massachusetts' manufacturers may, theoretically, be improved by swapping one tax for another.

The effect on Massachusetts' trade position should be favorable. Exports may rise; imports may fall. The state's deficit account on goods and services should be reduced, if only slightly. More accurately, since the states which are Massachusetts' closest industrial competitors have already adopted the sales tax, Massachusetts would simply be putting itself on a par with these states.

Are the prices of Massachusetts' products sufficiently flexible to respond to cost reductions? And, if prices are responsive, will consumers buy more at lower prices so that Massachusetts' manufacturers can capture a larger share of the market than

[3]These figures include a cost to him equal to his *present* Massachusetts income tax liability *plus* his liability under the proposed two per cent sales tax. The method is purely arithmetic. It is assumed that the extra cost to the taxpayer must equal $21.60,



before? Lightening the tax burden on industry through cutting property tax costs is of importance in cutting total production costs.

The Property Tax

In some states the sales tax has been adopted as a partial replacement of the general property tax,[4] and in others its use for this purpose has been advocated.

In addition, many cities have introduced sales taxes specifically to reduce the property tax load. The prime example of a local sales tax is to be found in the California cities, where its use has spread with increasing speed since the middle of 1946.

Approximate property tax rates per $100 of assessed valuation, needed in order to raise as much revenue as the sales tax, have been computed by the California State Board of Equalization.[5] Approximately 45 per cent of the property tax equivalents lie between 40 and 60 cents per $100 ($4 and $6 per $1,000) for cities with a half per cent sales tax. Taxes in the California cities generally exempt food, gas and electricity, and certain intercity sales to prevent duplicate taxation.

The average tax reduction possible in Massachusetts would fall within this same range, or $5.16 per $1,000; however, this reduction will not take place unless all proceeds of the two per cent sales tax are turned over to the cities and towns and are not wasted or used to increase local spending.[6]

Sharing state-collected taxes with the cities and towns is not a new principle in Massachusetts. Proceeds of the state personal income tax, business and corporation taxes, gasoline tax, and meals tax are all divided currently with the local communities.

Effect varies for different industries. In part, the property tax is a tax on the values of buildings. To this extent, it is probably shifted to others in the long run. It is a cost in this particular sense and must be covered by the rent (if buildings and other improvements are involved) and ultimately by the proceeds of the sale of goods.

The property tax is partially a tax on the value of land. The tax on the value of the land can be shifted less easily than the tax on buildings because the supply of land is fixed. However, the property tax on land may influence the *location* of business firms and this will indirectly affect the assessed value of the land itself.

In Massachusetts property taxes cannot be levied by the communities on the value of machinery used in manufacturing. The only local property taxes on business are those levied on the firm's real estate and buildings. Such property taxes, however, constitute in most cases a very heavy cost element for industry, since local tax rates in Massachusetts are generally higher than those in other areas.

The state includes the value of business machinery in its calculation of the corporate excess, taxable by the state at $5 per thousand. In return for giving up the property tax on machinery, the local communities receive most of the revenues collected by the state in business taxes. Shares of the corporate tax received by the cities and town are based upon the value of machinery located in their communities in 1935.

Use of sales tax receipts in order to decrease property taxes will lower the tax bill of some firms more than for others. The manufacture and sale of goods requiring large amounts of property, compared with the receipts from the sale, will be carried on at a lower cost than before. Goods which require in their production only small amounts of property will not benefit from much reduction in costs.

Inducing added investment in Massachusetts depends largely upon whether it can improve its industrial climate. Will the businessman think that his chances of profit will be increased if his local tax assessment is reduced? Is the tax environment going to be more healthy for the industrialist who is wondering which state will furnish the best industrial location?

Selling more of the goods produced in Massachusetts to other regions depends in part upon whether its manufacturers can reduce their costs and prices, or increase their productivity, to a greater extent than their competitors elsewhere can. As we have seen, some modification of the property tax should, theoretically, help heavy industry to cut both its costs and prices.

In a period of rising prices generally, this simply means a lag in our price increases compared with what they otherwise would have been. Thus, Massachusetts producers should be put in a more favorable competitive position compared with producers in other states or, alternatively, the com-

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[4] Alabama, Arkansas, North Dakota; formerly North Carolina, Illinois, West Virginia, and South Dakota.

[5] State Board of Equalization, *City Sales Taxes in California*, Sacramento, California, February 1948.

[6] The method used is based on the calculations of the Mass. Dept. of Corporations & Taxation, which show the state's total assessed valuation (real and personal), total direct tax, and average tax rate on January 1, 1947. Governor Bradford estimated that the two per cent retail sales tax which he proposed would net the state treasury $34 million. By distributing these sales tax receipts, the average Massachusetts tax rate could be reduced from $40.65 to $35.49, or $5.16.

petitive disadvantage of Massachusetts producers should be reduced.

How would tax aid be distributed among New England's various industries? The general property tax imposes a relatively high ratio of tax costs to selling prices on those enterprises which have a heavy investment in land and buildings. How do the industrial communities fare under each of a number of different state aid distribution formulas? Are the industries aided the ones which have high productivity and good expansion possibilities?

Determining Industrial Location

Statistically, the net tax burden on an industry located in Massachusetts may be compared with the tax burden on a comparable industry elsewhere.

It is simpler to assume that state "M" (presumably Massachusetts) levies a heavier tax on industry than state "X". This may be because corporate income taxes and general property taxes in state "M" are higher than they are in state "X". Assume that state "X" lightens the property tax burden on industry by levying a sales tax and distributes the proceeds to the communities. State "M" does not levy a sales tax but is forced to rely on progressively heavier property tax rates locally to raise its needed tax revenues. How does this constant increase in industrial tax pressure in "M" affect industry in state "M"? Let us suppose that conditions of industry and business in state "M" and state "X" are similar and that the industrial and business enterprises of the two states compete in the national market.

Heavily taxed concerns in state "M" may wish to include the extra tax load in the prices of their goods and to maintain their standard of profit. However, their products must compete in the general interstate market with identical products of less-heavily taxed enterprises in "X". Manufacturers in "M" must absorb the tax themselves and must eat into their profits if they are to compete effectively with "X's" businesses.

For some lines, concerns in "M" may be marginal, their gross incomes barely covering costs and leaving little profit. Or, the profit of "M" businesses may be reduced or eliminated altogether so that actual losses result. They may fail and rivals in "X" may take up their output. If enterprises in "M" are mobile, they may leave "M" and move to "X".

State "M" might feasibly choose to levy a personal income tax in preference to the sales tax, in order to relieve the load on real estate. The difficulty is that high-income people run many firms in the state, particularly larger businesses which sell out-of-state. If their profits are eaten into unduly, compared with those of industrialists in other states, they may be tempted to move elsewhere. This situation is probably unfortunate from the point of view of pure equity. However, equity considerations applicable on a national basis are overshadowed by competitive considerations when one state is set against another.

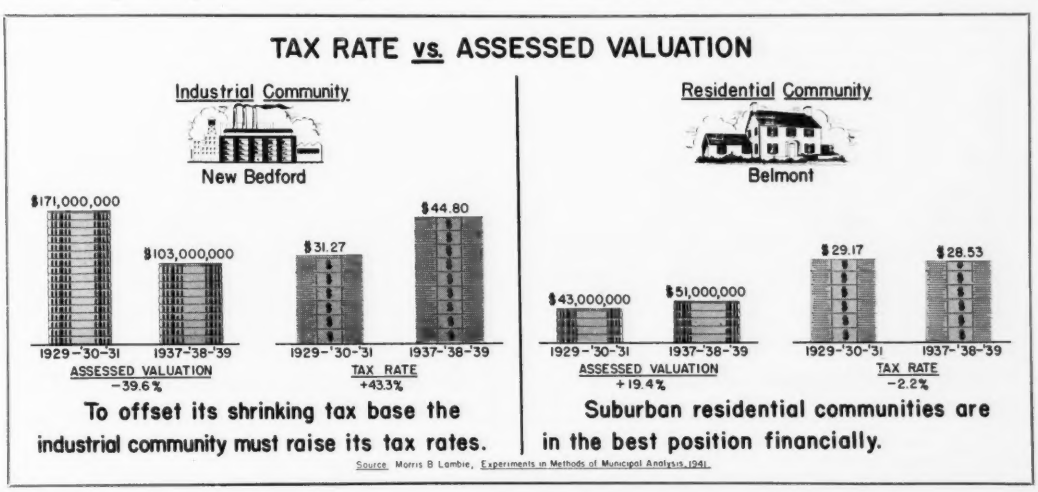
The sales tax, too, can have unfavorable effects upon industry in "M", but they probably will not be as direct or serious as those caused by very high property or income taxes. For example, consumers' purchases may be affected unfavorably if their real buying power is cut down. Retail stores which are located near the boundaries of non-sales tax states are hurt, as well as stores which have to compete with outside mail-order houses. Introduction of the use tax corrects this situation only partially and ineffectively. The best insurance of even competition among the New England states would be adoption of uniform sales tax rates and exemptions throughout the six states.

Distributing the Sales Tax Receipts

The state's choice of distribution to the cities and towns is vital to the success of any program of tax reform. The present method of distributing state aid is badly in need of overhauling.[7]

First, there have been wide cyclical fluctuations in the amounts distributed. In general, the distributions are liberal when least needed and sparse when needed most. For example, the distribution

[7]Mass. Federation of Taxpayers Associations, Inc., *Distribution of State-collected Taxes Shared with Cities and Towns*. Prepared for Mass. Special Commission on Real Estate Taxation and Related Matters. Boston, December 1944.



of business and manufacturing corporation taxes dropped from $12 million in 1930 to $6 million in 1933 but rose to $18 million in 1943.

Second, certain distributions appear to be more liberal to the towns which appear to need them least and meager to towns which seem to need them most. Residential communities are the most favored; industrial communities the least favored. The "equalizing principle" of state aid distribution is ignored almost completely.

For example, Stockbridge (a well-to-do residential and summer resort town), with a per capita valuation of $2,300 in 1942 and a tax rate of $27 in the same year, received $7.85 per capita in the distribution of income taxes. Sturbridge (a small industrial town), with a per capita valuation of only $690 and a tax rate of $42, received only $3.30.

Analysis of Professor Lambie's data yields some idea of which formula works best from the industrial community's point of view. Welfare and relief appear somewhat more favorable than education to the industrial city as a criterion of state aid.

State grants should probably be tied to specific expenditures purposes wherever possible. An effort should be made to curb further spending by the cities and towns from sales tax funds, or the benefits to industry will be dissipated. Consolidation of Massachusetts' innumerable taxing units should also help to lighten many local tax weaknesses.

Our assumption that sales tax funds be used exclusively to take a part of the load from real estate is not wholly impractical. Local spending might be curbed by definite constitutional amendment prohibiting further increases in local property tax rates. A local tax rate limitation is now in effect in many states, and restriction of local spending was proposed in 1945 by the Massachusetts Commission investigating real estate taxation.

Conclusion

This analysis has attempted to determine the economic effects of shifting a part of the tax load from the property tax base. Revenues from a two per cent retail sales tax, it was assumed, were to be distributed to the cities and towns. The sales tax was considered in terms of its ability to enhance Massachusetts' status as a good location for industry.

Taxes, of course, exert only a relatively small influence on the problem of determining industrial location. But if all other factors are the same, the state's tax structure can become the decisive factor.

Improving industrial opportunities and incentives in Massachusetts is an important job for those who seek to promote industrial expansion. The Massachusetts environment may look more healthy to the industrialist contemplating expansion if his unit tax costs are reduced and his chances of profit are made better.

Especially important is the question of how tax aid can be distributed between the state's industries. The distribution should attempt to aid mainly those industries which have high productivity and good future prospects. It should try to cut down Massachusetts' competitive disadvantage compared with manufacturers in other states whose tax systems bear less heavily upon business.

(See article on opposite page) ➡

ANALYSIS OF 1947 TRUST DEPARTMENT INCOME AND EXPENSES IN 46 N. E. BANKS GROUPED ACCORDING TO TRUST DEPARTMENT INCOME

Includes All Trust Functions — Personal and Corporate — Including Estates and Agencies

ITEMS	1947 TRUST DEPARTMENT CURRENT INCOME (In thousands of dollars)			
	$20 to $50 *(17 Banks)*	$50 to $100 *(9 Banks)*	$100 to $500 *(15 Banks)*	Over $500 *(5 Banks)*
	Average Bank	Average Bank	Average Bank	Average Bank
TRUST DEPARTMENT INCOME	$32.7	$70.5	$208.5	$1,188.4
Percentage of Total Expenses before Overhead:				
1. Salaries and wages:				
(a) Officers	40.6%	35.7%	32.6%	29.6%
(b) Clerical	32.4	34.0	37.7	43.1
Total salaries and wages	73.0%	69.7%	70.3%	72.7%
2. Employee pensions and retirements	1.4	1.6	3.8	4.7
3. Unemployment compensation & social security	0.8	0.9	1.2	1.1
4. Insurance and blanket bond	2.1	2.1	2.0	1.6
5. Occupancy of quarters	8.2	10.4	8.8	7.9
6. Equipment, depreciation, rental & repairs	1.6	1.6	1.8	3.3
7. Printing, stationery, postage & supplies	3.1	3.4	3.6	3.7
8. Telephone and telegraph	1.0	1.1	1.2	0.8
9. Advertising	1.9	3.4	2.9	1.5
10. Legal fees	1.3	0.6	1.3	0.3
11. Books, periodicals & information services	3.8	2.7	1.6	0.8
12. All other expenses	1.8	2.5	1.5	1.6
13. TOTAL EXPENSES BEFORE OVERHEAD	100.0%	100.0%	100.0%	100.0%
14. Overhead	14.7%	17.3%	15.5%	15.0%

Note: The ratios for the various groups represent unweighted arithmetical averages of the percentages computed for each of the individual reporting banks. No income taxes of any type have been considered in this analysis.

TRUST DEPARTMENT STUDY GETS *A New Look*

SALARIES of officers and clerical employees accounted for nearly three-quarters of the 1947 operating expenses of 46 trust departments in New England banks. This is one of several findings revealed in the first trust department income and expense survey conducted by the Federal Reserve Bank of Boston using a revised and improved statistical report. The "new look" which the report has taken on results from radical changes designed to provide greater uniformity and detail.

The operating ratios discussed in the report and shown in the table on page 6 have been computed from actual dollar figures given in voluntary reports submitted by banks in the six New England states having trust departments which earned $20,000 or more in gross trust department income in 1947. The report covers 91 per cent of trust department business handled by First District member banks in addition to that of nonmember banks. These statistics cover total trust business — corporate as well as personal — estates, agencies, and the like.

In the development of the basic instructions and definitions which guided the reporting trust departments we had the benefit of extensive comment and suggestions from banks, from specialists in trust department accounting and from groups devoted to the furtherance of trust department progress. The end-product was, therefore, the composite result of group opinion of persons thoroughly familiar with trust department accounting.

Because of the great variation in trust assets held by the trust departments concerned, we felt that the criterion for comparative grouping should be the volume of trust department income. We grouped the 46 useable reports as follows:

17 with income in excess of $20,000 but less than $50,000;
9 with income in excess of $50,000 but less than $100,000;
15 with income in excess of $100,000 but less than $500,000, and
5 with income in excess of $500,000.
No reports were used where income was less than $20,000.

It must be borne in mind while considering these group ratios that they reflect losers as well as gainers. Statistically, we have tried to lessen the effect of erratic cases by computing individual percentages for each bank and then averaging these percentages rather than aggregating dollar figures and then averaging the dollar figures.

In the $500,000 and over group 72.7 per cent of total expenses before overhead was for salaries and wages; 29.6 per cent to officers and 43.1 per cent to clerical help. In the $100,000 to $500,000 group 70.3 per cent represented total salaries and wages, 32.6 per cent officers and 37.7 per cent clerical. In the $50,000 to $100,000 group 69.7 per cent represented total salaries and wages, 35.7 per cent officers and 34.0 per cent clerical. In the $20,000 to $50,000 group 73.0 per cent of total expenses before overhead went for salaries and wages, with 40.6 per cent to officers and 32.4 per cent to clerical.

In general, it would appear that total wages and salaries decline in importance relative to total expense before overhead from the largest to the smallest income departments, but in the smallest departments the ratio jumps to its highest — 73.0 per cent. Without exception the proportion of total expense allocated to officer salaries decreases as the size of the department (measured by income) increases, while clerical wage expense increases relative to total as the size of the department increases. The range between highest and lowest salary ratios was quite narrow in the largest trust departments. In the groups of smaller departments this range broadens somewhat although the majority of departments in all groups have salary ratios fairly close to the average.

The next largest expense item is, of course, occupancy of quarters. This is made up of all the expenses in connection with occupancy: real estate taxes, heat, light, power, maintenance and service, insurance depreciation and an allowance for interest on the value of the quarters.

Other Expenses

The items covering salaries and wages and occupancy of quarters cover the major portion of expenses before overhead. Other items which absorb most of the remainder are advertising; equipment; printing, postage and supplies; insurance and bond other than building; and employee pensions and retirements. Inasmuch as the pension fund is usually considered in connection with wages and salaries it is interesting to observe that pensions and retirement contributions absorb more than twice as much of total expenses before overhead in the large departments (over $100,000 in income) than is the case in the smaller departments. Such expense absorbs about four per cent of total expenses before overhead in the larger departments. There are many trust departments which make no provision for pensions or retirements, according to reports received.

Printing and supplies account for about three to four per cent of total expenses before overhead in all size-groups. Advertising expenses run from two to three per cent of total expenses before overhead in all size-groups, with more money spent on advertising relative to total expenses in the medium-size departments than in the larger and smaller. Equipment charges are higher in the largest departments, running somewhat over three per cent compared with a little under two per cent in the smaller departments.

Business Generally Sound but Spotty

THE decrease in the national index of industrial production in April was largely attributable to the coal mining stoppage. The demand for goods, however, remained strong, and with the coal crisis at least temporarily settled, production and employment again approached record volumes. While business appeared generally firm, closer scrutiny, especially of the New England regional picture, revealed some spottiness which may cause further adjustments between and within industries.

Decreased employment in some of New England's manufacturing industries from March to April was generally offset by increased employment in construction, agriculture, fishing, and retail trade as the advancing season permitted expanded operations in these fields. Some manufacturing industries continued close to capacity operations, such as electrical machinery, textile and packaging machinery, chemicals, silverware, worsted and fine cotton textiles. Metalworking establishments were still hampered by scarcities of steel and pig iron. Seasonal slumps in the rubber products and jewelry industries were less severe than anticipated.

Other industries faced greater problems. Smaller demand for upholstered furniture and for fine writing paper was reflected back to the factories. Some confectioners reduced working forces sharply. New England's stove industry has retrenched to a lower production schedule as mounting inventories and competition from electric ranges have placed the industry in a buyer's market. Most serious was the continued slump at shoe factories and tanneries which accounted for about one-third of all unemployed factory workers.

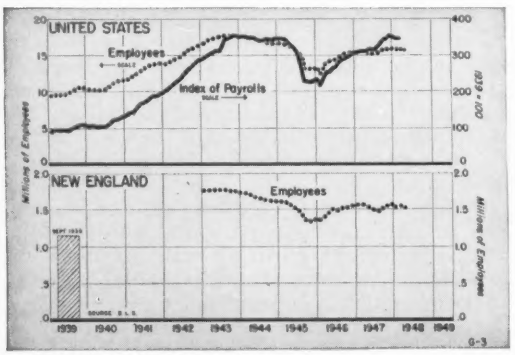
Adjusted for the varying date of Easter, dollar sales of New England department stores in April of this year were above those of April 1947. In May, however, dollar sales were below the corresponding period last year. Physical volume of sales as measured by the number of transactions continued to lag. Inventories rose seasonally while merchandise orders declined. Credit sales increased relative to cash sales. Purchasers continued to reflect price consciousness by increased patronage of basement departments.

Commodity prices showed further increases at both wholesale and retail levels. Prices of livestock, hides, and meats rose as the conclusion of the strike stimulated competitive purchasing by the packers. Declining prices for cocoa and tallow were arrested and then reversed. Prices for lead and tin were raised. High prices prevailed for wool tops and cotton, although a declining trend continued for print cloth.

High prices were the bugaboo to both producers and consumers, as they meant high production costs for the former and less purchasing power for the latter. More than one industry saw its break-even point lifted to precarious heights by costs of raw materials, labor and fuel which averaged about double those of 1939, and by freight charges which have been raised five times since June 1946. Inventory and order trends have been watched most attentively, and labor saving devices and technological improvements have been introduced wherever possible.

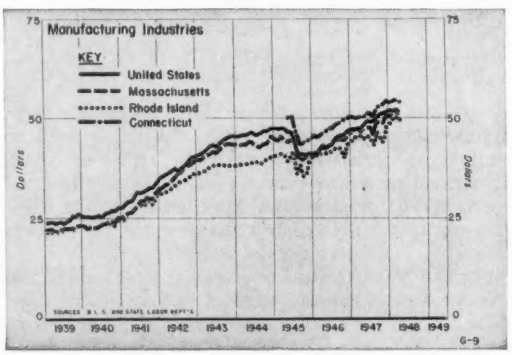
More and more consumers were feeling the pinch. Consumer credit rose in April and New England mutual savings bank balances showed the first monthly decline since May 1942. Purchasers shopped for bargains and deferred less needed expenditures. Vacationists, though seeking resorts in record volume, were increasingly placing reservations for modestly priced accommodations.

FACTORY EMPLOYMENT AND PAYROLLS



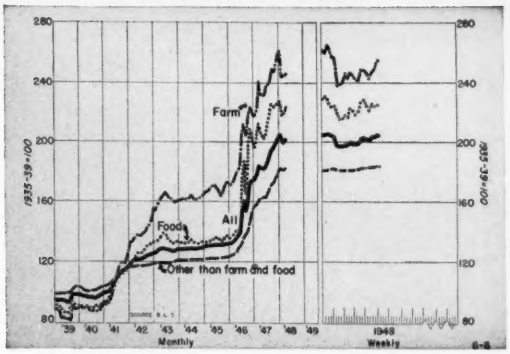
Manufacturing employment declined moderately during April in each of the reporting New England states to a level 2.6 per cent below a year ago. Declines, however, were offset in part by gains in non-manufacturing employment. (G-3)

AVERAGE WEEKLY EARNINGS



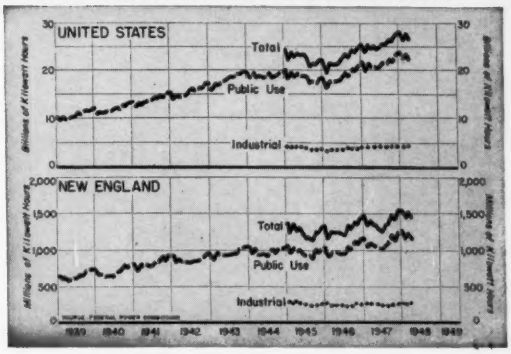
Average weekly earnings of manufacturing employees in New England as in the country at large rose to well over double the 1939 levels. Recent slight decreases in spite of higher hourly rates are due to shortened work weeks in some industries. (G-9)

WHOLESALE PRICES



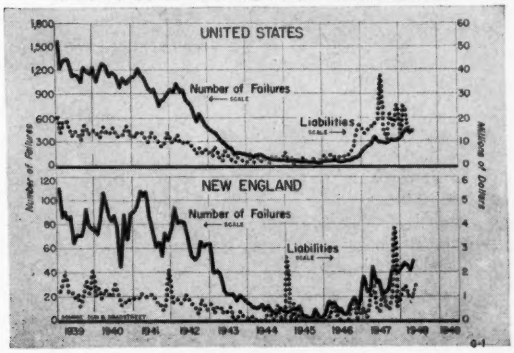
General wholesale price trends have been irregularly upward since February. Meat, oils, and cotton are appreciably higher. Cocoa and tallow have reversed earlier declines. Lead and tin have increased. Print cloth continues to decline. (G-6)

ELECTRIC ENERGY PRODUCTION



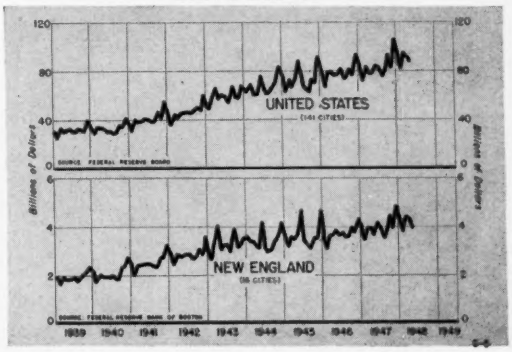
Total electric energy production in New England declined seasonally from March to April, but was 4.9 per cent greater than in April 1947. In the country as a whole April 1948 production was 7.8 per cent above that of April 1947. (G-4)

BUSINESS FAILURES AND LIABILITIES



The number of business failures continued its irregular upward trend. May failures in New England were 25 per cent more numerous than in April, and constituted the largest monthly total for the area since January 1943. (G-1)

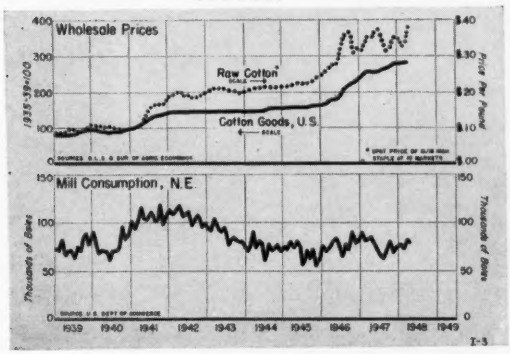
BANK DEBITS



Debits to individual bank accounts in 16 New England cities declined in April and May. However, the volume of debits in May 1948 was still 6.6 per cent greater than in May 1947, with only Brockton showing a decrease. (G-5)

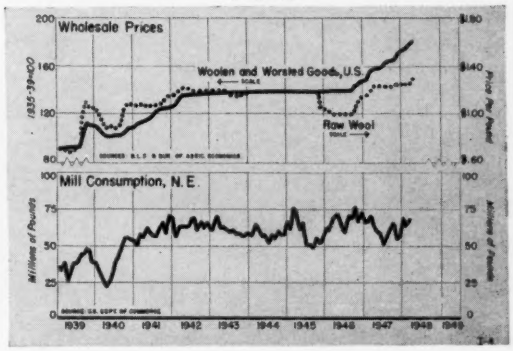
Industry

COTTON



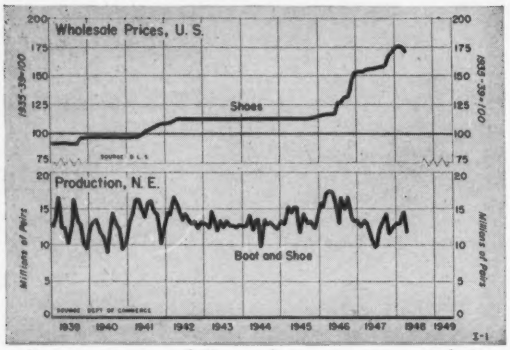
Cotton consumption at New England mills during April was 9.0 per cent below a year ago, but spindle activity was only 3.3 per cent less, indicating more production of fine goods and possibly greater use of rayon staple. (I-3)

WOOL



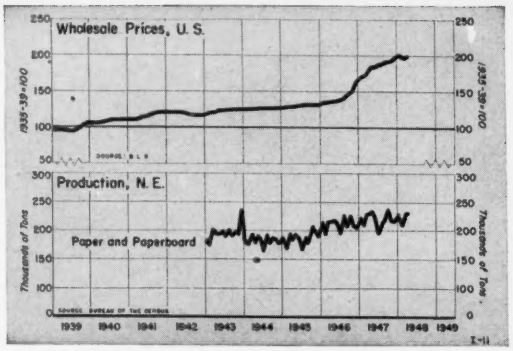
Continued strong demand for fine domestic and foreign wool enabled prices to advance further in the raw wool and finished goods markets. Output of worsted mills is sold through 1948, but peak employment seems to have been reached. (I-4)

SHOES AND LEATHER



Between-season dullness became accentuated in New England shoe factories during April. Orders were slow despite lower prices. Production declined 7.3 per cent from a year ago. Layoffs and shorter work weeks affected many employees. (I-1)

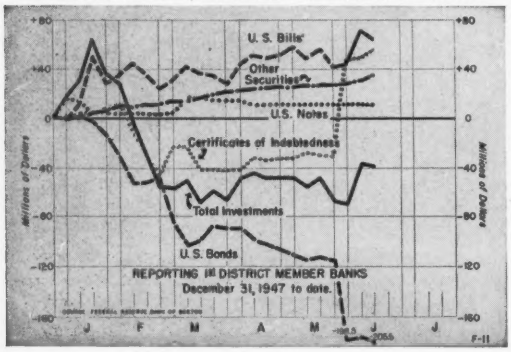
PULP AND PAPER



April production of paper and paperboard in New England was slightly less than in the previous month or in April 1947. Prices have leveled off somewhat as demand for some types, especially fine writing paper, has diminished. (I-11)

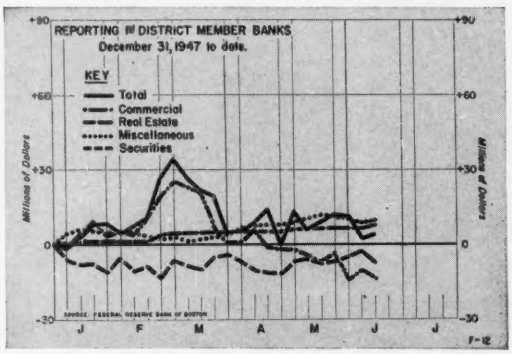
Banking and Finance

CUMULATIVE CHANGES IN INVESTMENTS



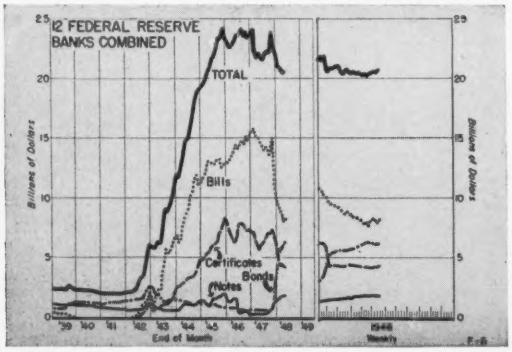
Shifts in U. S. security holdings May 27-June 2 reflect the June 1 Treasury offering when certificates and bonds were exchanged for new certificates. Certificate holdings increased $77 million; bond holdings declined $83 million in the week. (F-11)

CUMULATIVE CHANGES IN LOANS

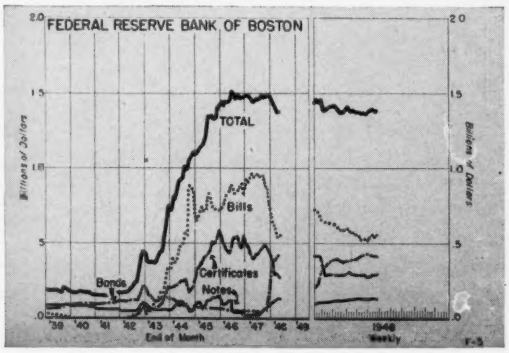


Business loans of $717 million on June 16, while 25 per cent above a year ago, are the lowest since mid-December. Expanding real estate loans reached $122 million. Consumer credit outstanding was just below the May 19 peak of $191 million. (F-12)

BANK HOLDINGS OF U. S. SECURITIES



Fluctuations in U. S. securities over the 11-week period since March 31 largely reflect shifts in bills and bonds. Bills decreased $610 million. Bonds rose $505 million. Net security sales of the System amounted to $138 million. (F-6)



Changes in U. S. securities held followed the System pattern. Shortening of Government security portfolios by commercial banks induced by anticipation of increases in short-term rates and refunding policy is reflected in System holdings. (F-5)